Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
HLL	24-Nov-05	172	**202**	280
ICICI Bank	23-Dec-03	284	**917**	1,240
JP Associates	30-Dec-03	125	**588**	850
Maruti	23-Dec-03	360	**767**	1,050
Tata Elxsi	14-Dec-06	232	**322**	385

Satyam Computer Services

Apple Green

Stock Update

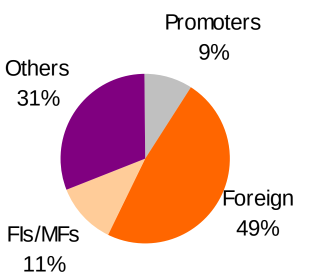
Price target revised to Rs560

Buy; CMP: Rs485

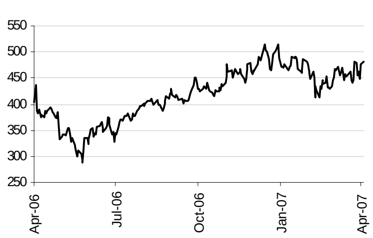
Company details

Price target:	Rs560
Market cap:	Rs31,913 cr
52 week high/low:	Rs517/396
NSE volume: (No of shares)	32.5 lakh
BSE code:	500376
NSE code:	SATYAMCOMP
Sharekhan code:	SATYAM
Free float: (No of shares)	29.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.8	-2.4	11.4	10.3
Relative to Sensex	-2.5	-0.7	1.4	-6.1

Result highlights

- Satyam Computer Services (Satyam) reported a revenue growth of 7.1% quarter on quarter (qoq) and 35.4% year on year (yoy) to Rs1,779 crore during the fourth quarter of FY2007. The revenue growth was higher than expected and driven by a healthy volume growth of 9.5% on a sequential basis. On the other hand, the 1.7% appreciation in the rupee limited the sequential growth in the revenues during the quarter.
- The operating profit margin (OPM) declined by 162 basis points to 23.1% on a sequential basis, largely due to the adverse impact of the charges related to restricted stock units (RSU; impact of 90 basis points), higher personnel cost (bonus) and the rupee appreciation. It was partly mitigated by a 64-basis-point saving in the selling, general and administrative (SG&A) expenses as a percentage of sales. Thus, the operating profit was flat at Rs410 crore on a sequential basis.
- However, the earnings growth was boosted by the jump in the other income component to Rs70.4 crore (up from Rs10.1 crore in Q3) as the company accrued better yield on investments and reported a foreign exchange (forex) gain of Rs3.8 crore as compared to a forex fluctuation loss of Rs35.5 crore in Q3FY2007. Consequently, the consolidated earnings grew by 16.7% qoq and 38.3% yoy to Rs393.6 crore, which is much ahead of the consensus estimate of around Rs358 crore.
- On a full year basis, the consolidated revenues and earnings have grown by 35.3% to Rs6,485 crore and by 43.1% to Rs1,404.8 crore respectively. The OPM has declined by 60 basis points to 23.7% which is in line with the company's guidance.

Result table (consolidated Indian GAAP) Rs (cr)

Particulars	Q4FY07	Q4 FY06	Q3 FY07	% yoy	% qoq
Net revenue	**1779.2**	**1313.6**	**1661.1**	**35.4**	**7.1**
Gross profit	**702.9**	**563.5**	**693.8**	**24.7**	**1.3**
Other expenses	292.7	229.1	283.8	27.8	3.1
Total expenditure	1368.9	979.1	1251.1	39.8	9.4
Operating profit	410.2	334.5	410.0	22.7	0.1
Non-operating income	70.4	28.9	10.1	143.7	595.7
Interest	7.4	1.7	3.2	349.7	129.
PBDT	**473.2**	**361.7**	**416.9**	**30.8**	**13.5**
Depreciation/amortisation	35.4	37.2	39.4	-4.7	-10.1
PBT	437.8	324.5	377.5	34.9	16.0
Provision for taxation	44.2	39.7	40.3	11.3	9.7
PAT	**393.6**	**284.8**	**337.2**	**38.2**	**16.7**
Share of associate companies	0.0	0.2	0.0	-	-
RPAT	**393.6**	**284.6**	**337.2**	**38.3**	**16.7**
Equity capital	131.4	129.3	131.0		
Basic EPS (Rs)	6.0	4.4	5.1		
Margins (%)					
GPM (%)	39.5	42.9	41.8		
OPM (%)	23.1	25.5	24.7		
NPM (%)	22.1	21.7	20.3		

- In terms of the guidance for FY2008, the consolidated revenues and earnings are guided to grow at a healthy rate in the range of 28-30% and 27-29% respectively, in dollar terms. The growth in rupee terms would be dented by the 600-basis-point appreciation in the rupee (an exchange rate of Rs42.3 per US Dollar assumed in the guidance), resulting in revenue and earnings growth of 20-22% and 18-20% respectively. What's heartening and has come as a positive surprise is that the management expects to maintain its margins in FY2008, in spite of the wage inflation, rupee appreciation and additional expenses related to RSUs. On the flip side, the growth guidance for Q1FY2008 is quite subdued and indicates a flat or a marginal decline in the earnings.
- We have revised upwards our FY2008 earnings estimate by 4% and introduced our FY2009 estimate. At the current price the stock trades at 18.6x FY2008 and 15.6x FY2009 estimated earnings (including the non-cash charges for the stock options). We maintain our Buy call on the stock with a revised price target of Rs560 (18x FY2009 earnings estimates).

Momentum maintained in volume growth

Notwithstanding the seasonal weakness, Satyam reported a healthy sequential growth in its volumes during Q4. The sequential growth of 9.5% in the volumes was much ahead of that of its peers. Nor did Satyam report any material slowdown in the revenues from the banking and financial service (BFS) vertical or the North American region. In fact, on a sequential basis, the consolidated volume growth was one of the highest in the past ten quarters.

The healthy growth guidance of 28-30% in revenues (in dollar terms) clearly indicates that the growth momentum is likely to continue in FY2008. The enterprise business solutions practice would continue to be the key growth driver in the current fiscal also. The practice contributed 41.4% of the total turnover and grew at a robust rate of 43% in FY2007.

Growing confidence to sustain margins

Satyam has been able to achieve its guidance of limiting the decline in its margins to 60 basis points in FY2007. What's more important is the fact that the management expects to maintain its margins in FY2008, in spite of the cumulative adverse impact of around 6.2-6.5% on the margins due to the rupee appreciation (a 600-basis-point appreciation in the rupee to have a net adverse impact of 220 basis points), wage inflation (wage hikes of 5% for onsite staff and of 16% for offshore employees to dent margins by 325-350 basis points) and RSU charges (around $20 million, to affect margins by 80 basis points).

The management expects to nullify the impact of the same by an improvement in the average realisation (anticipated to be higher by 200-300 basis points), better performance of its subsidiaries and other cost efficiencies (like offshore shift, lower SG&A expenses as a percentage of sales, broadening of the employee pyramid and better management of fixed-priced projects).

The improvement in the profitability of its subsidiaries resulted in a positive impact of 70-80 basis points in its OPM during FY2007. The management expects further improvement in FY2008, especially in its business process outsourcing subsidiary Nipuna, which is expected to turn positive at net level.

Muted Q1 guidance

The guidance of a 1.2-1.7% growth in the revenues and a marginal decline (of -0.8% to 0%) in the earnings during Q1 is the only major discomforting factor. In addition to the steep appreciation in the rupee, the earnings growth is likely to be subdued due to the equity dilution by 1.8-2% (from the exercise of employee stock options) and expected increase in the tax rate. The company expects to maintain the margins in Q1 as the annual salary hikes would be effective from July.

Other highlights

Satyam reported net addition of 9,159 employees in its information technology service business in FY2007, a rise of 35% to 35,670 people. It has guided for a healthy gross addition of 14,000-15,000 employees (excluding Nipuna) in the current fiscal.

Nipuna is expected to add 1,500-2,000 employees in FY2008, a growth of 50-70% over the base of 2,916 employees as on March 2007. Consequently, Nipuna is guided to grow its revenues by around 60% to $61 million in FY2008.

The annual salary hikes are indicated to be around 5% for the onsite staff and 16% for the offshore employees, lower than 6% for the onsite staff and 18% for the offshore employees given in FY2007. The attrition rate (on last twelve-month basis) of 15.7% (down from 17.6% in Q3) was one of the lowest in the past six quarters. The annualised attrition rate of 13% was comparable with most of the other front-line vendors, indicating that the company seems to have managed to effectively address this key concern in FY2007.

The company had total forward cover of $460 million as on March 2007.

Valuation

At the current price the stock trades at 18.6x FY2008 and 15.6x FY2009 estimated earnings (including the non-cash charges for the stock options). We maintain our Buy call on the stock with a revised price target of Rs560 (18x FY2009 earnings estimate).

Key financials

Particulars	FY06	FY07	FY08E	FY09E
Net revenue (Rs cr)	4793.0	6485.0	8373.0	10485.0
Net profit (Rs cr)	982.0	1405.0	1745.0	2108.0
Shares in issue (cr)	64.8	65.7	67.0	67.8
EPS (Rs)	15.2	21.4	26.0	31.1
% y-o-y change	*36.0*	*41.1*	*21.7*	*19.4*
PER	32.0	22.7	18.6	15.6
OPM (%)	24.3	23.7	23.1	22.8
Dividend (Rs)	3.5	3.5	4.0	4.5
Dividend yield (%)	0.7	0.7	0.8	0.9

The author doesn't hold any investment in any of the companies mentioned in the article.

Tata Elxsi

Emerging Star

Stock Update

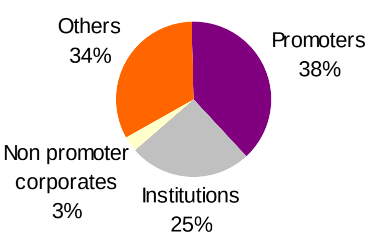
Price target revised to Rs385

Buy; CMP: Rs325

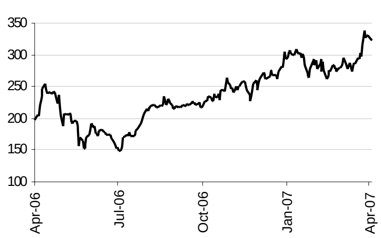
Company details

Price target:	Rs385
Market cap:	Rs1,011 cr
52 week high/low:	Rs350/147
NSE volume: (No of shares)	95,904
BSE code:	500408
NSE code:	TATAELXSI
Sharekhan code:	TATAELX
Free float: (No of shares)	1.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	17.7	12.0	51.1	67.8
Relative to Sensex	7.4	13.9	37.6	42.9

Result highlights

- Tata Elxsi has reported a robust growth of 10.8% quarter on quarter (qoq) and 25.6% year on year (yoy) in its revenues to Rs89.1 crore for Q4FY2007. The growth was contributed by a 6.6% sequential growth in the software service (SS) business while the system integration (SI) business showed an exponential jump of 35.7% qoq to Rs15.7 crore. The fourth quarter generally tends to be strong for the SI business.
- The operating profit margin (OPM) improved by 160 basis points to 24.3% (the highest ever) on a sequential basis. The margin improvement was boosted by the steep improvement in the profitability of the SI business (margins doubled from 13.7% to 29.5%). On the other hand, the segmental margins of the SS business declined by 190 basis points sequentially.
- Consequently, the company was able to report a double-digit sequential growth in its earnings for the third consecutive quarter. Its earnings grew by 14.8% qoq and 38.8% yoy to Rs16 crore, ahead of our expectations.
- On a full year basis, the revenues grew by 30.7% to Rs308 crore (slightly higher than our estimate of Rs304 crore). The OPM improved by 260 basis points to 22.4%, resulting in a 51.8% growth in the earnings to Rs52.1 crore.
- The company has given a healthy dividend of 70% (or Rs7 per share) in line with our expectations, amounting to a dividend yield of 2.1% at the current market price.
- To factor in the better than anticipated performance, we have revised upwards the earnings estimate for FY2008 by 9.4% to Rs21.4 per share and introduced our FY2009 estimate. At the current market price the stock trades at 15.2x FY2008 and 12.3x FY2009 estimated earnings. We maintain our Buy call on the stock with a revised price target of Rs385 (14.5x FY2009 earnings).

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	Q3FY07	% yoy	% qoq
Net sales	**89.1**	**71.0**	**80.5**	**25.6**	**10.8**
Total expenditure	67.4	55.4	62.2	21.7	8.5
Operating profit	21.7	15.6	18.3	39.5	18.6
Other income	0.1	0.2	0.0	-54.5	91.9
Interest	0.0	0.0	0.2	---	-84.5
Depreciation	2.6	1.8	2.2	49.2	20.5
PBT	19.1	13.9	16.0	37.0	19.5
Tax	3.1	2.4	2.0	28.7	52.5
Profit after tax	**16.0**	**11.6**	**14.0**	**38.8**	**14.8**
Equity	31.1	31.1	31.1		
EPS (Rs)	5.1	3.7	4.5		
Margins (%)					
OPM	24.3	21.9	22.7		
NPM	18.0	16.3	17.4		

Segmental results

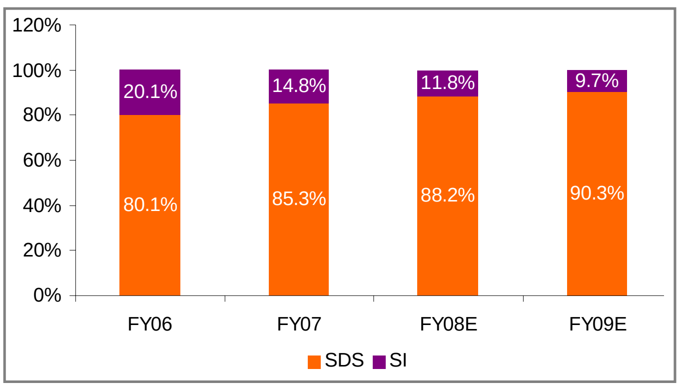
The performance of the SS business was largely in line with expectations. However, the SI business surprised on the margin front and reported a profit before interest and tax margin of 29.4%, one of the highest in the past 12 quarters. However, we view this as an aberration and believe that the revenue growth and margin improvement in the SI business would remain subdued.

Seasonally strong quarter for SI business

Particulars	Q4FY07	Q4FY06	Q3FY07	% yoy	% qoq
Revenues					
- System integration	15.7	15.8	11.6	-0.8	35.7
- Software services	73.5	55.3	69.0	32.9	6.6
Segment (PBIT)					
- System integration	4.6	2.7	1.6	70.1	191.7
- Software services	16.3	13.6	16.8	19.8	-2.5
PBIT margins (%)					
- System integration	29.4	17.1	13.7		
- Software services	22.2	24.7	24.3		

On the other hand, the SS business continues to show robust growth and grew by 39.1% to Rs262.6 crore in FY2007. Consequently, the contribution from the high-margin SS business increased to 85.2% in FY2007 (up from 80% in FY2006), which is one of the key reasons for the 250-basis-point improvement in the OPM for the overall company during FY2007. This was one of the key investment arguments given by us. We expect the trend to continue with the contribution from the SS business increasing to over 90% in FY2009.

Increasing contribution of high-margin SS business



Revision of earnings estimates

To factor in the better than anticipated performance, we have revised upwards the earnings estimate for FY2008 by 9.1% to Rs21.4 per share and introduced our FY2009 estimate.

However, the scrip could underperform in the short term due to the seasonally weak results expected in the first quarter. Going by the past trend, the company tends to report a sequential decline in revenues and earnings due to a drop in the SI business and the flat performance of the SS business. Moreover, the annual salary hikes would put pressure on the margins in the first quarter.

Valuation

At the current market price the stock trades at 15.2x FY2008 and 12.3x FY2009 estimated earnings. We maintain our Buy call on the stock with a revised price target of Rs385 (14.5x FY2009 earnings).

Key financials

Particulars	FY06	FY07	FY08E	FY09E
Net sales (Rs cr)	235.6	308.0	395.8	486.8
Net profit (Rs cr)	34.5	52.4	67.1	83.1
No of shares (crore)	3.1	3.1	3.1	3.1
EPS (Rs)	11.0	16.7	21.4	26.5
% y-o-y change	*30.6*	*51.8*	*28.1*	*23.7*
PER (x)	29.5	19.4	15.2	12.3
Price/BV (x)	15.3	10.9	7.7	5.6
EV/EBIDTA(x)	21.4	14.5	11.1	8.8
Dividend yield (%)	2.0	2.2	2.5	2.8
RoCE (%)	57.5	62.0	56.8	51.0
RoNW (%)	98.6	84.0	66.5	54.7

The author doesn't hold any investment in any of the companies mentioned in the article.

Bank of India

Apple Green

Stock Update

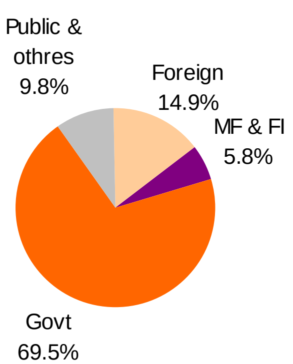
Q4FY2007—first cut analysis

Buy; CMP: Rs184

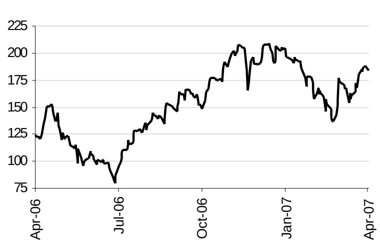
Company details

Price target:	Rs210
Market cap:	Rs8,981 cr
52 week high/low:	Rs214/80
NSE volume: (No of shares)	22.0 lakh
BSE code:	532149
NSE code:	BANKINDIA
Sharekhan code:	BOI
Free float: (No of shares)	14.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.9	-7.4	24.9	55.7
Relative to Sensex	13.0	-5.8	13.7	32.6

Result highlights

- Bank of India's (BOI) Q4FY2007 profit after tax (PAT) was way above expectations at Rs447 crore, up 76% year on year (yoy) compared to our estimate of Rs288.9 crore. The PAT growth was ahead of our estimate mainly due to an unexpected 78.9% quarter-on-quarter (q-o-q) jump in the non-interest income.
- The net interest income (NII) grew by 28.8% yoy and 7.7% quarter on quarter (qoq) to Rs991 crore against our estimate of Rs973 crore. The NII figure is adjusted for the one-off cash reserve ratio (CRR) interest to the tune of Rs40 crore in Q4FY2007.
- The non-interest income was a surprise as it reported a 78% growth yoy and 79% rise qoq to Rs576 crore. However the detailed break-up of the same is still awaited.
- The operating expenses grew by 22% yoy in line with the business growth; the operating profit was up by 63.6% yoy and 49.5% qoq to Rs918.3 crore.
- The provisions increased by 4.5% yoy and 27.5% qoq to Rs369.5 crore. The increase was mainly on account of higher other provisions as the non-performing asset (NPA) provision reported a decline both yoy and qoq.
- The bank's asset quality has shown a consistent improvement with the net NPAs and gross NPAs both showing a decline in percentage and absolute terms. The net NPAs stood at 0.74% as on March 2007 compared with 0.95% reported in December 2006 while the gross NPAs showed a decline to Rs2,100 crore from Rs2,186 crore sequentially.
- The higher non-interest component in this quarter has caused the bank's PAT to grow by 76% yoy to Rs447.4 crore compared to our estimate of Rs288.9 crore. We would provide our detailed result update later. At the current market price of Rs184, the stock is quoting at 7.6x its FY2008E earnings and 1.3x expected FY2008E book value. We maintain our Buy recommendation on the stock with a price target of Rs 210.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy chg	% qoq chg	FY07	FY06	% yoy chg
Net interest income*	991.1	769.6	28.8	7.7	3,685.4	2,875.6	28.2
Non-interest income	576.7	324.1	77.9	78.9	1,563.0	1,184.1	32.0
Net income	1,567.8	1,093.8	43.3	26.2	5,248.3	4,059.7	29.3
Operating expenses	649.6	532.4	22.0	3.5	2,608.4	2,115.1	23.3
Operating profit	918.3	561.4	63.6	49.5	2,639.9	1,944.6	35.8
Provisions & Contingencies	369.5	353.6	4.5	27.5	1,107.0	1,029.2	7.6
PBT	588.7	423.4	39.1	81.4	1,532.9	915.4	67.5
Provision for taxes	141.4	61.4	130.1	102.9	409.7	214.2	91.3
Net profit	447.4	254.2	76.0	75.5	1,123.2	701.2	60.2

*Adjusted for the amortisation expenses of Rs63 crore and Rs39.6 crore in Q4FY2007 and Q4FY2006 respectively; and Rs244 crore and Rs243 crore for FY2007 and FY2006 respectively, as BOI includes the same in its interest expenses.

Yield analysis (%) table

Particulars	Q4FY07	Q4FY06	Q3FY07
Yield on advances - domestic	9.78	8.64	8.99
Cost of deposits - domestic	4.83	4.49	4.54
NIM - domestic	3.7*/3.6**	3.68	3.76

Source: * reported NIM ** annualized NIM adjusted for CRR interest of Rs 40 crore, Sharekhan estimates

Pressure on NIMs visible

The bank has grown its assets by 26.1% yoy and 8.9% qoq, while its NII is up 28.8% yoy and 7.7% qoq. The bank's domestic net interest margin (NIM) stood at 3.6% for Q4FY2007, down 16 basis points, adjusted for a one-time CRR interest income of around Rs40 crore. The 100-basis-point hike in the prime lending rate made in two phases of 50 basis points each in Q4FY2007 has resulted in the sharp improvement in the domestic yield on the advances. However, deposit costs have also increased by 29 basis points which has put pressure on the NIM on a sequential basis. The current and savings account ratio has remained stable on y-o-y and q-o-q bases at 40%. This has restricted the escalation in the domestic cost of deposits by 29 basis points to 4.83% for FY2007, compared with 4.54% in Q3FY2007.

The author doesn't hold any investment in any of the companies mentioned in the article.

Ceat

Ugly Duckling

Stock Update

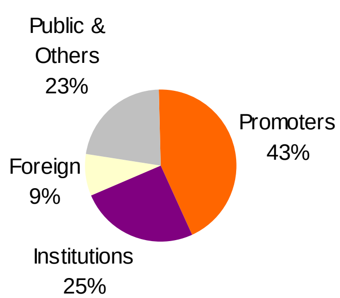
A brilliant performance

Buy; CMP: Rs137

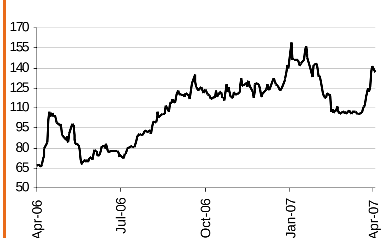
Company details

Price target:	Rs190
Market cap:	Rs626 cr
52 week high/low:	Rs162/64
NSE volume: (No of shares)	3.1 lakh
BSE code:	500878
NSE code:	CEAT
Sharekhan code:	CEAT
Free float: (No of shares)	2.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	32.0	1.4	15.2	108.6
Relative to Sensex	20.5	3.1	4.9	77.7

Result highlights

- Ceat's Q4FY2007 numbers are way ahead of our expectations. The net sales have risen by a brilliant 16.2% to Rs562.9 crore on the back of a 3% tonnage growth and a very strong realisation growth. The original equipment manufacturer (OEM) sales recorded a significant improvement of 58.4% during the quarter. The replacement sales continue to grow at a good pace of 10%.
- The operating profit margin (OPM) expanded by 250 basis points to 7.8% as a result of a lower raw material cost during the quarter and other efficiencies. As a result the operating profit grew by 70.3% to Rs43.9 crore.
- The company was able to lower its raw material cost due to forward booking of rubber at lower prices. The company has made arrangements to procure rubber at lower prices in future as well, which would help it to maintain its margins in the coming quarters.
- A lower interest cost due to the ongoing debt restructuring exercise and stable depreciation cost helped the company to report a 390% growth in the net profit, which stood at Rs23.4 crore.
- The company has declared a dividend of Rs1.8 per share and the board has also approved the financial restructuring of the company. A holder of 100 shares in Ceat would be getting 75 shares of the company and 25 shares of the new investment company. We believe that this is a positive move and would lead to greater unlocking of value for the shareholders. The sale of part of the property at its Bhandup plant is expected to be finalised by Q2FY2008, and is expected to fetch the company about Rs80-100 crore.

Result table Rs (cr)

Particulars	Q4FY07A	Q4FY06	% yoy	FY07	FY06	% yoy
Net sales	**562.9**	**484.4**	**16.2**	**2134.8**	**1747.4**	**22.2**
Expenditure	519.0	458.6		2006.4	1678.0	0.2
RM consumed	364.2	316.8		1486.9	1237.7	
Change in stock	15.5	21.9		-2.4	-23.0	
Staff cost	31.6	28.4		127.8	118.3	
Other expenditures	107.7	91.5		394.1	345.1	
Operating profit	**43.9**	**25.8**	**70.3**	**128.4**	**69.5**	**84.9**
Other income	11.4	5.0		24.4	21.4	0.1
EBIDTA	55.3	30.8	79.6	152.9	90.8	68.3
Interest	12.9	15.4		60.4	63.4	0.0
PBDT	42.4	15.4	175.0	92.4	27.4	237.1
Depreciation	7.9	5.8		31.1	22.5	0.4
Profit before tax	**34.5**	**9.7**	**257.6**	**61.4**	**5.0**	**1135.0**
Tax	11.1	4.9		21.7	4.6	3.7
Profit after tax	**23.4**	**4.8**	**389.7**	**39.7**	**0.4**	**10632.4**
EPS	5.12	1.05		8.69	0.08	
Margins						
OPM (%)	7.8	5.3		6.0	4.0	
PATM (%)	4.2	1.0		1.9	0.0	

- At the current market price of Rs137, the stock is trading at 8.2x its FY2008E earnings and at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 4x. We maintain our Buy recommendation on the sock with a price target of Rs190.

Strong top line growth led by strong realisations

Ceat has rendered a strong performance for Q4FY2007 as its net sales have exceeded our expectations, growing by 16.2% to Rs562.9 crore. The strong growth is attributed to a 3% tonnage growth and a strong realisation growth of about 12.8% due to a change in the product mix and significant price hikes effected in the last one year.

Sales break-up (Rs crore)

	Q4FY07	Q4FY06	% chg	FY07	FY06	% chg
Domestic	518	426	21.6	1947	1544	26.1
Replacement	358	325	10.2	1344	1186	13.3
OEM	160	101	58.4	603	358	68.4
Exports	113	114	-0.9	444	408	8.8
Total	**631**	**540**	**16.9**	**2391**	**1952**	**22.5**

During the quarter the OEM sales rose significantly; the OEM sales grew by a whopping 58.4% to Rs160 crore. We view this as a positive sign as the OEM sales have become pretty profitable after the price hikes effected in the last one year. The replacement sales marked a growth of 10.2% to Rs358 crore while exports stood at Rs113 crore for the quarter.

Strong improvement in the margin

The OPM improved by 250 basis points year on year to 7.8%. This was primarily due to a lower raw material cost, better cost efficiencies and an improvement in the product mix. The company is continuing its efforts to reduce its manpower cost and other overheads. We believe that there is room for improvement in the OPM due to an improvement in its product mix towards specialty tyres (which carry higher margins), better raw material sourcing and higher savings due to improved operating efficiencies.

The other income for the quarter was higher at Rs11.4 crore against Rs5 crore last year due to higher rent and dividend incomes as well as reversing of certain provisions. The interest cost of the company is under control despite higher rates because of the repayment of some debts and the restructuring of the other debts.

Forward booking of rubber to help maintain margins

The company was able to keep its rubber cost under control during the quarter due to some amount of forward booking of rubber. Usually, the prices of rubber go up during the April-June quarter, as it is an off-season. To cater to its requirement for the coming season, the company has already entered into forward contracts to procure rubber at cheaper rates. The domestic prices of rubber are also unlikely to go up due to very high levels of rubber inventory as compared to last year. Further, the appreciating rupee augurs well for the company as it imports raw materials like nylon tyre chords, carbon black and rubber chemical.

Land sale expected to be conducted by Q2

The board has approved part sell-off of the Bhandup property. The sale of approximately 7 acre is expected to fetch about Rs80-100 crore to the company (around Rs20 per share) and is expected to be finalised in Q2FY2008.

Valuations and view

Considering the strong growth opportunities for Ceat, particularly in the specialty tyre segment, its strong performance in the last couple of quarters, improving productivity and the scope for improvement in its margin, we maintain our positive outlook on Ceat. On account of the company's strong turn-around in FY2007, sharp improvement in its profitability and a good outlook for its business, we are raising our FY2008E earnings estimate by 6.8% to Rs16.7.

Ceat has also announced its plan to de-merge itself into two companies, one with the core business and the other with the investment portfolio. Approximately 16-17% of Ceat's capital employed is in investments in group companies. On this the dividend income earned is approximately Rs2 crore. For every 100 shares held in Ceat, the shareholder would get 75 shares of the tyre manufacturing company and 25 shares of the new investment company. We believe the move is a positive one and would lead to greater unlocking of value for the shareholders of Ceat in terms of higher return ratios and better valuation. We continue to value Ceat on sum-of-parts basis.

Sum-of-parts valuation

Particulars	Price (Rs)	Comment
Core business	166.7	10x FY08 earnings
Investment value	23.5	75% discount to CMP
Fair Value	190.2	

At the current levels, the stock is trading at 8.2x its FY2008E earnings and an EV/EBIDTA of 4x. We believe the valuations are very attractive and maintain our Buy recommendation with a price target of Rs190.

Earnings table

Particulars	FY04	FY05	FY06	FY07	FY08E
Net sales (Rs cr)	1407.2	1532.2	1744.1	2134.8	2458.9
Net profit (Rs cr)	14.1	-1.9	0.5	39.7	76.1
Shares in issue (cr)	3.51	3.51	4.57	4.57	4.57
EPS (Rs)	4.0	-0.5	0.1	8.7	16.7
% y-o-y growth				*7525.0*	*92.0*
PER (x)	49.7	-276.4	792.2	15.8	8.2
P/BV	0.8	0.8	1.8	1.6	1.4
EV/EBITDA	24.1	14.8	11.2	6.6	4.0
ROCE (%)	9.4	6.4	8.4	14.0	22.9
RONW (%)	1.5	-0.3	0.2	10.2	16.5

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